

Fourth Quarter 2024 Financial Review



If you like surprises, then the past quarter was perfect for you. The only unsurprising events came from the Fed as they continued to ease monetary policy, cutting another 25 bps each in November and December. Those cuts were largely anticipated, but the tone has shifted and the December meeting came with a warning from Chair Jay Powell that the pace of rate cuts moving forward will be much slower. As of now the markets are pricing in between one and two rate cuts in 2025, a dramatic change from just a few months ago. What's even more surprising is the movement in long-term Treasury yields. The Fed ended 2024 with 100 bps of rate cuts, meanwhile the 10 year Treasury yield rose approximately 100 bps in that same time! The Fed's accommodative policy is at odds with their recent hawkish tone.

To add to the uncertainty, we have a new administration talking about ambitious goals and touting aggressive policies to reach those goals. President Trump is clearly viewed as a "pro-business" President who favors lower taxes, but also suggests an aggressive tariff policy and vows to reduce the federal deficit. The tariff increases he's suggested are widely believed to be inflationary and harmful to growth, which is also driving up long-term yields. Then again, this could simply be a negotiating tactic to get trading partners to meet other requirements. Regardless, the next few months, and possibly all of 2025, is going to be a guessing game over the direction of monetary and fiscal policy. Prepare for more surprises!

The good news is our balance sheet continues to be well positioned to thrive in any interest rate environment as we can adjust quickly to any changes in interest rates. We continue to focus on operating in a safe and sound manner while providing our members with solutions to meet their needs.

Income Statement Highlights

- Income from investments for the year was \$20,873,592 which is up 38.39% compared to last year when it was \$15,083,084. This increase is still primarily due to the few remaining interest rate increases since the first quarter of 2023.
- Dividends paid to member credit unions of \$15,233,022 was up 39.89% compared to last year's \$10,889,112, due again to rising interest rates but also an increase in member deposits.
- We've had no borrowing interest expense this year other than a very small amount for testing our lines of credit, compared to \$88,116 in interest expense last year.
- CUSO income this year, is a \$13,184 which is much improved compared to last year's loss of (\$123,707).
- The Fee Income we derive from managing off-balance sheet amounts has increased. Fee Income for 2024 shows a 9.38% increase compared to last year.
- Overall, Total Operating Expenses were 16.07% higher this year than in 2023. This difference is partially due to professional fees and various costs related to the search for and hiring of our new CEO as well as the new CEO's compensation from early June through year end.
- We did not recover any more of the losses experienced in 2009, which were caused by the write-down of investment values at US Central, continues. Prior to this year, Tricorp had already recovered 100% of the retained earnings that was lost in 2009, and we had started to recover some of our Paid in Capital investment as well. There have been no additional paid in capital recoveries received this year whereas last year we received \$3,254,202 in combined recoveries. Some small

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Balance Sheet Highlights

- Total Assets as of December 31, 2024, are \$385.2 million which is 6.82% higher than in 2023. Due to the volatility in the size of our balance sheet we rely on a 12 month Moving Daily Average Net Assets (MDANA) to reflect balance sheet trends more accurately. MDANA of \$395.7 million on December 31 is 28.96% higher than the balance of \$306.8 million at 12/31/2023.
- Net Fixed Assets on December 31 is 17.69% higher than it was one year ago. This increase is primarily due to a large investment in a new core data processing system, a new company car, a new billing system, investment in all new network equipment not yet placed in service at 12/31/2024, and various other technology related purchases. Currently all our office furniture and fixtures are fully depreciated while our technology assets' book value is at 52.72% of cost.
- PCC was reduced by 20% in September of this year. We have received approval from NCUA to periodically return unneeded PCC to members at a rate of 20% per year, as long as specific capital benchmarks are maintained. This approval is dependent on our operating results and ends next year. We will re-apply to return the remaining balance after next year's distribution.
- Undivided Earnings are \$3,610,975 or 8.92% higher at 12/31/2024 than the balance one year ago, which represents our unaudited net income for the last 12 months.
- The Unrealized Loss on our Available for Sale securities as of year-end, of (\$1,570,170). This is an improvement from the previous year when unrealized loss was (\$2,576,288).

Capital and Other Ratios Highlights

- Our Retained Earnings ratio shows a decrease in the past 12 months from 13.20% in 2023 to 11.15% currently. The Capital Ratio is at 14.14% compared to 18.18% last year. While we have been very profitable, the rapid growth in our MDANA in the past year has outpaced our income, causing our retained earnings and capital ratios to decline slightly. Additionally, the return of 20% of our PCC also decreases our Capital Ratio.
- The base level NEV ratio as of 12-31-2024 is 14.55% with a regulatory minimum requirement of 2.00%. In a scenario that projects a rate increase of 300 basis points (3.0%) our NEV changes by -4.83% to 13.94%. The maximum regulatory decrease based on our level of authority is -20.00%.
- Tricorp currently has Tier 1 and Total Risk Based Capital ratios of 126.68%. These ratios far exceed the regulatory minimum of 8%. The Weighted Average Life (WAL) of our balance sheet on December 31 is 1.21 years, which is below the regulatory maximum of 2 years.

We sincerely appreciate your continued support and business. Tricorp's Board and Staff are committed to providing products, services and member service that enable you to serve your members well. We look forward to continuing to work with you, our members, in a trusted partnership. Attached you will find condensed financial information as of and for the year ended December 31, 2024 and 2023 to provide a more complete picture of our financial condition and the results of our operations. This internal data is unaudited.

Tricorp Federal Credit Union – 4th Quarter 2024 Financial Review

TRICORP FCU Statement of Financial Position (Unaudited) December 31, 2024 and 2023

	12/31/24	12/31/23	Change
<u>Assets</u>			
Loans to Members	490,012	289,851	69.06%
Cash	153,560,445	132,642,475	15.77%
Investments	219,058,174	216,242,704	1.30%
Accrued Interest	982,566	1,064,093	-7.66%
Net Fixed Assets	1,409,210	1,197,359	17.69%
NCUSIF Deposit	195,479	191,415	2.12%
CUSO Investments	1,642,509	1,575,019	4.29%
Other Assets	7,867,766	7,402,099	6.29%
Total Assets	385,206,162	360,605,016	6.82%
<u>Liabilities</u>			
Members' Shares and Deposits			
Overnight Deposits	328,871,178	303,120,311	8.50%
Borrowed Funds	0	0	-
Interest Payable	0	0	-
Accounts Payable	99,775	91,008	9.63%
Accrued Expenses	92,745	114,017	-18.66%
Other Liabilities	118,612	2,500,681	-95.26%
Total Liabilities	329,182,310	305,826,017	7.64%
<u>Members' Equity</u>			
PCC	13,489,076	16,861,345	-20.00%
Undivided Earnings	44,104,916	40,493,942	8.92%
Unrealized Gain/(Loss) AFS	(1,570,140)	(2,576,288)	39.05%
Total Members' Equity	56,023,852	54,778,999	2.27%
Total Liabilities & Members' Equity	385,206,162	360,605,016	6.82%

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TRICORP FCU Income Statement (Unaudited) For the Years Ended December 31, 2024 and 2023

	12/31/24	12/31/23	Change
Interest Income from Loans	53,540	324,072	-83.48%
Interest and Dividend Income from Investments	20,873,592	15,083,084	38.39%
Total Interest Income	20,927,132	15,407,156	35.83%
Dividend Expense	15,233,022	10,889,112	39.89%
Interest on Borrowed Money	14	88,116	-99.98%
Total Interest Expense	15,233,036	10,977,228	38.77%
Net Interest Income	5,694,096	4,429,928	28.54%
CUSO Equity Method Income	13,184	(123,707)	110.66%
Fee Income	1,161,248	1,061,668	9.38%
Other Operating Income	215,504	204,299	5.48%
Gross Operating Margin before Operating Expenses	7,084,032	5,572,187	27.13%
Operating Expenses:			
Salaries and Benefits	1,895,570	1,578,574	20.08%
Office Occupancy	101,957	101,143	0.80%
Office Operations	233,846	221,691	5.48%
Travel and Conference	83,473	71,524	16.71%
Educational and Promotional	93,798	101,438	-7.53%
Professional and Outside Services	830,733	776,504	6.98%
Other	233,680	141,324	65.35%
Total Operating Expenses	3,473,057	2,992,199	16.07%
Gain/(Loss) Investment Sales	0	0	-
Recovery of 2009 US Central OTTI loss (Net)	0	3,254,202	-100.00%
Net Change to Undivided Earnings	3,610,975	5,834,191	-38.11%

Tricorp Federal Credit Union – 4th Quarter 2024 Financial Review

TRICORP FCU Portfolio Diversification by Investment Issuer (Unaudited) 12/31/24

<u>Issuer</u>	<u>Percent</u>	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
SBA Pools	12.12%	26,736,132	26,604,534	(131,598)
Agency Debentures - Floating	26.48%	58,427,348	58,826,399	399,051
Agency Debentures - Fixed rate	1.36%	3,000,000	2,812,170	(187,830)
Total U.S. Government Agency	39.96%	88,163,480	88,243,103	79,623
CMO/MBS - Floating Rate	9.51%	20,981,069	20,753,592	(227,477)
CMO/MBS - Fixed Rate	8.68%	19,158,210	17,774,869	(1,383,341)
CMBS - Floating Rate	21.82%	48,146,599	48,007,153	(139,445)
Total CMO's, MBS & CMBS	40.02%	88,285,878	86,535,614	(1,750,263)
FFELPs	0.94%	2,064,863	2,023,505	(41,358)
Variable Rate Credit Card ABS	7.64%	16,854,060	16,902,793	48,733
Variable Rate Auto loan ABS	9.07%	20,010,132	20,137,610	127,478
Fixed Rate Auto Loan ABS	2.30%	5,066,503	5,032,150	(34,353)
Total Asset-Backed Securities	19.94%	43,995,557	44,096,057	100,500
FHLB Stock	0.08%	183,400	183,400	0
Total Other	0.08%	183,400	183,400	0
Total Investments	100.00%	220,628,315	219,058,174	(1,570,140)

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TRICORP FCU Key Ratios and Other Information (Unaudited)

	As of 12/31/24	As of 12/31/23
* Operating Expense Ratio	1.09%	1.06%
* ROA	1.00%	2.07%
*Retained Earnings ratio	11.15%	13.20%
* Capital ratio	14.14%	18.18%
YTD Average Assets	395,663,140	306,807,103
Net Economic Value (NEV)	12/31/24	Reg 704 Min Requirements
+ 300 BP Shock		***
Actual Dollar Change	53,328,126	44,827,028
% Change	-4.83%	
NEV Ratio	14.55%	2.00%
Base Level Dollar Amount	56,033,785	
Base Level NEV Ratio	14.55%	
- 300 BP Shock		
Actual Dollar Change	58,314,195	44,827,028
% Change	4.07%	
NEV Ratio	15.05%	2.00%

* Based on Moving Daily Average Net Assets

*** NEV cannot decrease more than twenty percent in any rate shock scenerio.
Minimum amount is based on current year levels.